News from the Investment Committee

Q4 2023

News from the Investment Committee – Nov 2023

The Dynamic Planner Investment Committee (IC) met on Monday 23 October and reflected on the implications of the global stagflation environment, with negative earnings growth, persistently high inflation and Central Banks unlikely to pivot to significantly cutting interest rates anytime soon, for fear of inflation spiralling out of control again.

Many developed economies, particularly in the case of the UK and US, are teetering on recession and may have already experienced periods of intermittent recession, without necessarily realising it.

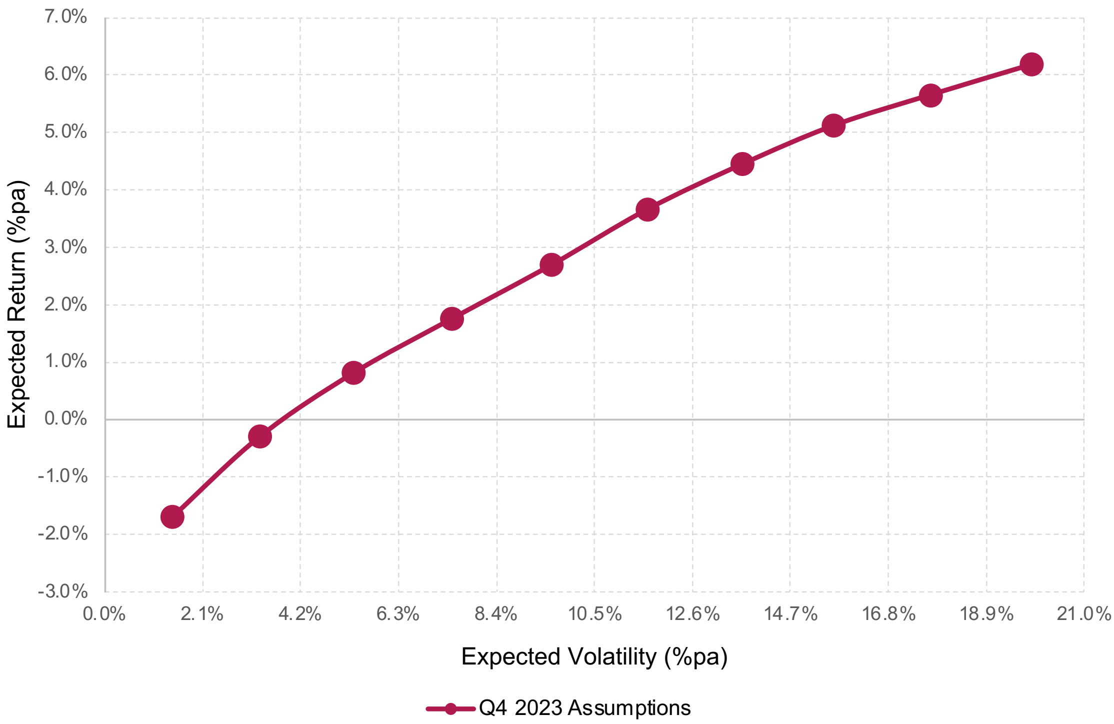
The continued flatlining of the UK economy for such a long period was also a subject of discussion. Inflationary pressures (particularly from semi- and low-skilled wage growth) remains stubbornly high with interest rates, after 14 hikes so far, likely to remain high for longer. Rising fuel prices, as a result of the rising tensions in the Middle East, could also delay the more recent falling headline inflation numbers.

Quantitative tightening by Central Banks, to reduce their balance sheets and higher interest rates, means major concerns persist for the overvalued Global Government Bonds. Bond yields, having risen steeply at the shorter end, saw the curve flatten, but it remains inverted, which traditionally is a recessionary signal. Whilst interest rate normalization continues, negative real bond returns are to be expected for the foreseeable future, as high inflation persists and the US / global yield curves steepen.

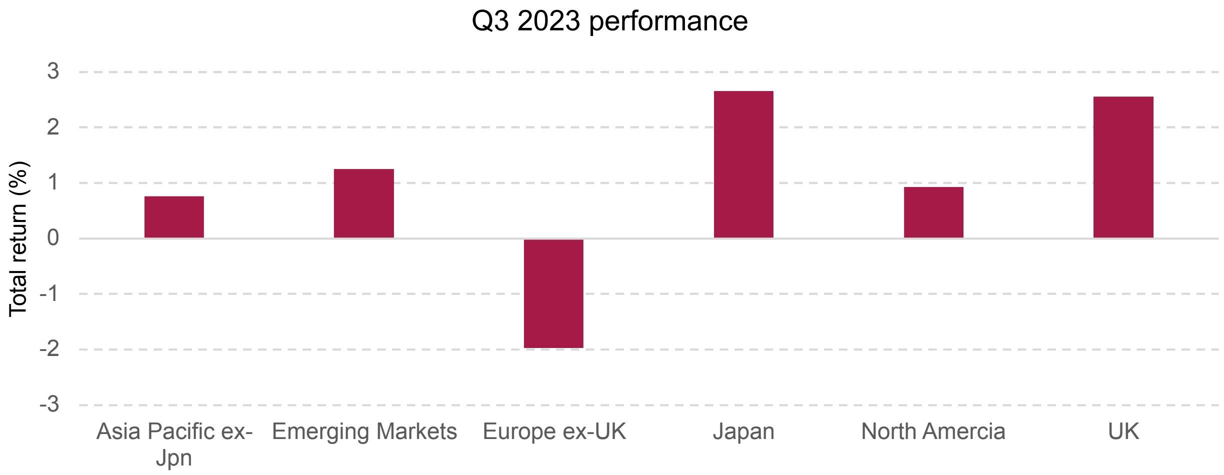
With the prospect of further periods of volatility associated with the ongoing geo-political crises, and the inevitable run in to next year's elections in the US and UK, the IC focused on the diversification benefits of the benchmark allocations and the stress testing of the Value at Risk metrics.

Dynamic Planner Efficient Frontier

There were no changes made to the capital market assumptions this quarter. Hence the efficient frontier positioning of the benchmarks remained unaltered



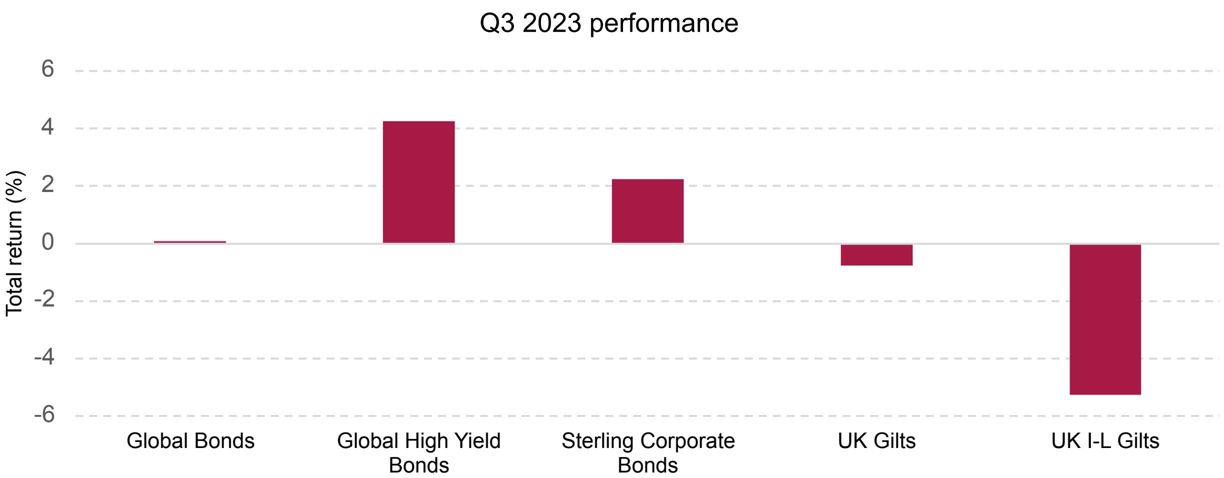
Q3 2023 market overview – Equities



It was a rather mixed quarter for equity markets. The most positive were from the UK, driven mainly by the energy sector as crude oil prices spiked and also in Japan, where smaller and value stocks were supported by the weakening of the yen and strong domestic demand.

In the US, earlier optimism of an end to the tightening of interest rates gave way to the realisation of them remaining high for longer. Asia ex Japan equities were also lacklustre as concerns over the Chinese economy, particularly the property sector and fears over global economic growth, dampened investor sentiment. Eurozone shares fell over the quarter, amid ongoing concerns over the negative effects of interest rate rises on economic growth.

Fixed interest

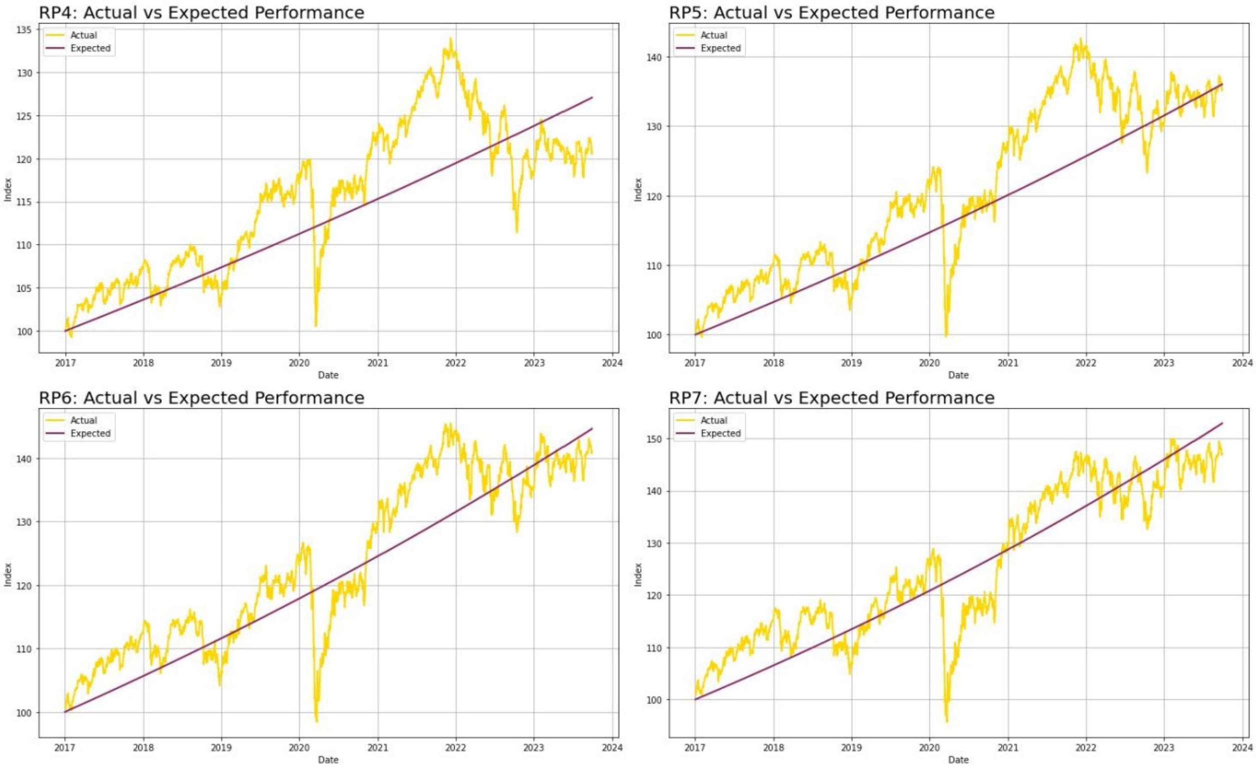


In July, there were 0.25% rates hikes from both the US Federal Reserve and the European Central Bank, and the latter continued to tighten again in September. The Bank of England raised the base rate to 5.25% in August.

Whilst hoping that the peak in the current tightening had been reached, the Bond markets continued to grapple with the prospect of persistently high inflation and a longer period of elevated rates. Corporate credit and high yield bonds outperformed government bonds, as hopes of a soft economic landing and the peak in interest rates held sway.

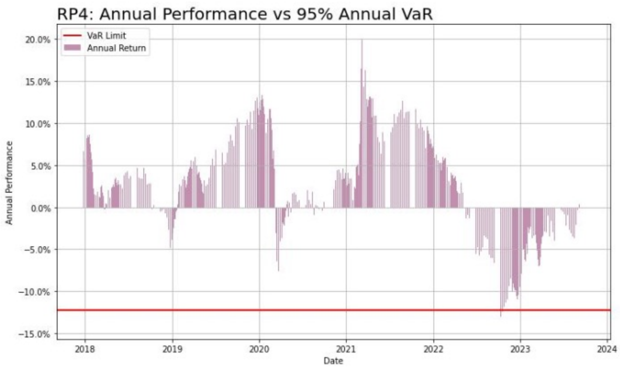
Review of the benchmark performance

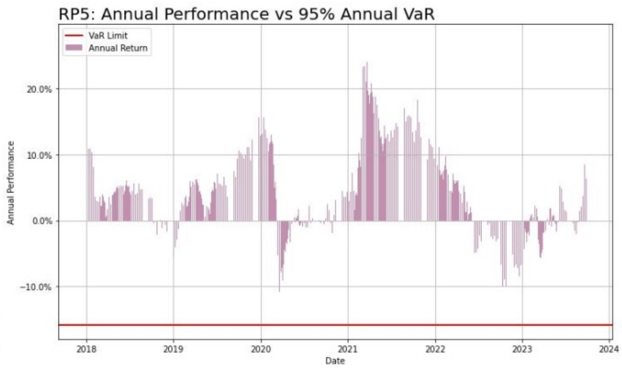
– Benchmark realised returns

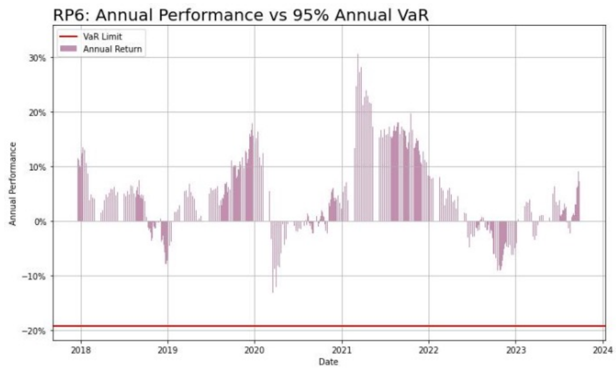


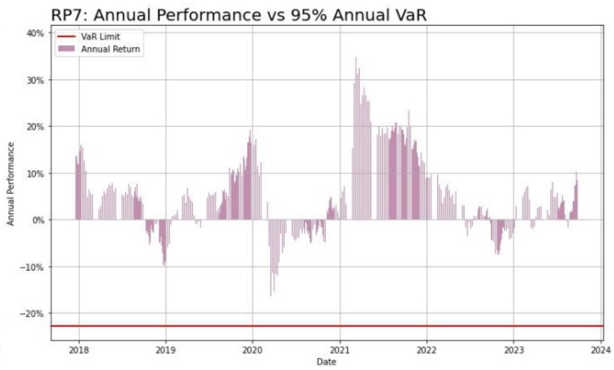
The IC reviewed the benchmark 4 - 7 range and noted that performance was generally trending in line with long-term linear forecasts (as set in Q3 2017) for the mid-risk range. However, benchmarks 3 and 4 were underperforming due to the well documented issues in the UK gilt market last year.

Monthly Value-at-Risk analysis









Monthly returns have normalised post-Covid and last September's mini-budget bond market tantrums, as demonstrated via the rolling monthly returns calculated each month versus their expected 95% VaR limit (the horizontal red lines above).

Dynamic Planner Investment Committee,
Nov 2023

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